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SUBJECT: A/S SULLIVAN & A/S LOWERY'S MEETING WITH GOVERNMENT OF EL SALVADOR ECONOMIC TEAM ON EXTENDING THE BENEFITS OF TRADE LIBERALIZATION

¶1. (SBU) SUMMARY. A joint State/Treasury delegation led by EEB Assistant Secretary Sullivan and Treasury Assistant Secretary Lowery discussed regional integration, including a like-minded association of free trade partners; extending the benefits of CAFTA-DR to all parts of society; and the status of the U.S.-Brazil biofuels initiative with the Government of El Salvador's ministerial-level economic team. The GOES ministers welcomed the idea of an association of free trade partners, offering to promote the idea with other Central American nations. The ministers also discussed trade capacity building and GOES efforts to promote SME exports, especially in the agricultural sector. END SUMMARY.

¶2. (U) Participants:

U.S.  
A/S Dan Sullivan, Economic, Energy, and Business Affairs  
A/S Clay Lowery, International Affairs, Treasury  
PDAS Craig Kelly, Western Hemisphere Affairs  
DAS Brian O'Neill, Western Hemisphere Affairs, Treasury  
Greg Delawie, Director, Bilateral Trade Affairs, EEB  
Luyen Tran, Director, Western Hemisphere Affairs, Treasury  
Econ Counselor Donn-Allan Titus  
MCC Director Ruddy  
Econoff Christensen (notetaker)

El Salvador  
Eduardo Ayala Grimaldi, Technical Secretary (Chief of Staff) to the President  
Yolanda Mayoria De Gavidia, Minister of Economy  
William Handal, Minister of Hacienda (Finance)  
Mario Salaverria, Minister of Agriculture  
Anabella Larde de Palomo, Deputy Technical Secretary  
Johanna Hill, Vice-Minister of Economy

PROMOTING FURTHER ECONOMIC INTEGRATION  
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¶2. (SBU) Sullivan stated that the USG planned to continue its total economic engagement - using all USG economic policy tools, such as Free Trade Agreements, MCC, USAID programs, OPIC, air service agreements, etc. - in the Western Hemisphere and hoped to build on existing free trade agreements to continue the momentum.

¶3. (SBU) Sullivan stressed that the immediate priority for the USG was the passage of FTAs with Peru, Columbia, and Panama, and noted

the positive House of Representatives vote on Peru. He said that the USG wanted to consolidate and maintain the momentum of these historic achievements with regard to free trade in the hemisphere. He suggested the establishment of an association of free trade partners in the hemisphere, committed to democracy, the rule of law, and open market policies, the primary purpose of which would be to work together to promote competitiveness and ensure the benefits of trade liberalization were spread as broadly as possible in all our societies, especially to small business, farmers, and others who had not yet directly benefited from free trade.

14. (SBU) Such an association could have strong links to the private sector and could include initiatives, such as the U.S. Treasury's program to enhance access to financing for small and medium enterprises (SMEs), to help citizens take better advantage of FTAs in the region. An important longer term goal of such an association would be to work on "knitting together" the different hemispheric trade agreements - possibly harmonizing issues like customs procedures, rules of origin, intellectual property rights, etc., and working on cumulation issues.

15. (SBU) This association of free trade partners could potentially include an administrative headquarters to serve as a coordinating body and driving force for continued progress on reducing poverty, increasing competitiveness and social cohesion in the Western Hemisphere. It could complement the work of other institutions in the region, such as the OAS and IDB.

16. (SBU) Sullivan emphasized that the delegation was seeking input from the three leaders on trade in Latin America - Chile, El Salvador, and Mexico - as well as Canada - before moving forward with this idea. He noted the delegation would return to Washington to work with other agencies in the USG to consolidate the ideas of

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the Latin leaders and refine the proposal for final approval by the USG interagency economic team.

17. (SBU) Ayala said that the GOES would welcome efforts to harmonize free trade agreements in the hemisphere and agreed that private sector participation would be an important part of the effort. De Gavidia noted that CAFTA-DR had created great expectations for this government, many of which they were still working to fulfill. She added that the GOES had been discussing trade integration efforts with the Government of Mexico for some time, including raising the idea of a NAFTA-CAFTA summit with Mexican President Calderon. In addition, she said that El Salvador could promote the concept within the region when it takes over the rotating presidency of the Central American Regional Integration System (known by the Spanish acronym SICA) in January.

18. (SBU) Sullivan and Kelly emphasized the USG was not looking to create new "blocs" in the region, and that the association should be flexible in adding new members as long as they were committed to the shared principles of democracy, open markets, and free trade. For example, he noted Chile's interest in including Uruguay in a future association. Likewise, the Caribbean countries might be included. Ayala replied that El Salvador had free trade agreements in the hemisphere with many of the same countries as the United States. He noted that these FTAs had many things in common, which meant that they presented a good opportunity for integration. He agreed on the need for flexibility, but cautioned that an association not be made "too inclusive too soon." De Gavidia raised the possibility of extending the association to Asia in the future. Ayala added that an important part of such an association would be to send a message to the hemisphere and the world in defense of democracy and free trade.

19. (SBU) De Gavidia stated that the GOES would discuss and promote the concept of an association with its counterparts in the region. De Gavidia thought Guatemala and Honduras definitely would support an association and they were hopeful about Costa Rica, but they were unsure about Nicaragua. Ayala noted that Central America was very pleased with CAFTA-DR overall - even Nicaragua under its current government.

¶10. (SBU) While noting the success of several programs, including USAID's export promotion program, De Gavidia lamented the lack of new ideas and originality in trade capacity building programs. Lowery said the trade capacity building should focus on creating access to markets and financing. He described two Treasury initiatives: infrastructure financing and technical support to municipalities which run together with the International Financial Center, and Small and Medium Enterprise Financing Support which run together with the Multilateral Investment Fund of the International Development Bank (IDB).

¶11. (SBU) Kelly described the new U.S.-Chile Scholarship Initiative, under which 100 Government of Chile-funded students will study science and technology in the United States each year, and inquired about educational programs could be targeted at Central America. De Gavidia replied that El Salvador needed more education and training relative to the service sector, describing a Ministry of Education program to increase vocational training related to logistics, tourism, and information technology. Increased English language training is also vital to increasing competitiveness. Ayala noted the importance of creating strategic alliances with universities and other institutions to increase the level of professional development in the country. O'Neill added that it was important to coordinate assistance efforts to maximize the use of the resources.

#### AGRICULTURAL SECTOR -----

¶12. (SBU) Salaverria discussed El Salvador's agricultural success in exporting frozen "nostalgic" products to the USA, especially exports by small and medium enterprises. As a small country, he said, El Salvador needed to specialize in things like organic and gourmet coffee, exotic fruits, and unique products like Salvadoran beans; they couldn't compete with the United States or even Guatemala on

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more common products like corn. They also need to focus on value-added agricultural exports. Salaverria noted that the GOES was working with the IDB to reconvert unused industrial areas into agricultural-industrial areas, but the project only had funding for 60 percent of proposed projects. Salaverria also stressed the importance of focusing on added-value agricultural products and biotechnology development.

¶13. (SBU) Salaverria said that U.S. sanitary and phytosanitary (SPS) regulations were often a challenge for the small producer, who often has exports rejected because of lack of knowledge. He also raised the difficulty of exporting fresh fruit - a higher value product than frozen - because of the Mediterranean fruit fly. Lowery responded that they had heard a great deal about the challenge of SPS regulations from other meetings during their trip, and the delegation would discuss ways to increase education in the region with their colleagues in the Department of Agriculture.

#### BIOFUELS -----

¶14. (SBU) Sullivan closed the discussion by asking for an update on Salvadoran biofuels efforts under the U.S.-Brazil biofuels initiative. Salaverria stated that he and De Gavidia would be accompanying President Sacca to Brazil the following week on an official visit that would include biofuels discussion. His Vice Minister Jose Emilio Suadi would also be attending biofuels meetings in Miami. Salaverria said that El Salvador's focus was on ethanol derived from sugarcane, where they had a comparative advantage; from one hectare of Salvadoran sugarcane they could produce 6,000 liters of ethanol. De Gavidia noted progress on an ethanol law that would mandate a 10 percent ethanol blend.

¶15. (SBU) Salaverria also emphasized that the GOES needs to overcome a public perception problem on biofuels. Biofuels were being blamed for an increase in basic food prices as rice production in the United States and elsewhere was being redirected to corn, and corn

production was being redirected from food products to biofuel production. The GOES would have to work closely with all sectors to stress the value of biofuels, he added, especially as oil approaches \$100 per barrel.

¶16. (SBU) Sullivan asked for GOES reaction to the initial Winrock report. De Gavidia replied that she thought the Winrock report would be of great use to the private sector, but was not as helpful to the Government. She expressed hope that Winrock's future efforts could help the government in examining blending requirements. Sullivan said that he hoped GOES, U.S., and Brazilian representatives, together with Winrock and the Brazilian Fundacion Getulio Vargas, could meet together in Miami to discuss next steps for the initiative. [Note: Sullivan chaired a meeting of this group in Miami the following week].

¶17. (U) A/S Sullivan has cleared this message.

Glazer